COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF COMPLIANCE PLAN AND TO ASSESS A SURCHARGE PURSUANT TO KRS 278.183 TO RECOVER COSTS OF COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS FOR COAL COMBUSTION WASTES AND BY-PRODUCTS	)	CASE NO. 94-332

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file the original and 12 copies of the following information with the Commission no later than December 22, 1994, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. In numerous responses to the Commission's November 9, 1994 Order, LG&E has stressed that it is not seeking recovery of any operation and maintenance ("O&M") expenses at present and has

only proposed a general framework which permits recovery of O&M expenses in the future. If the Commission were to adopt LG&E's proposal, explain how LG&E would proceed when it determines that O&M expenses on a particular project should be included in the surcharge calculations.

2. Item 2 of the November 9, 1994 Order requested LG&E to explain how it will identify and track environmental compliance related O&M expenses in its accounting system. LG&E responded that it did not need to because it was not now requesting recovery of O&M expenses. The request dealt with all environmental compliance related O&M expenses, including future amounts, not just those related to the five projects. Provide the originally requested information.

3. The copy of the March 23, 1993 Federal Register, referenced in the response to Item 5 of the November 9, 1994 Order was not included with the response. Provide the referenced document.

4. In the response to Item 6(b) of the November 9, 1994 Order, LG&E stated that there is no urgency to develop a written strategy for the management of its emission allowance inventory. When will LG&E develop its written plan?

5. In the response to Items 9(a) and 9(b) of the November 9, 1994 Order, LG&E stated that although it did not seek to include inventory and supply accounts in its environmental compliance rate base for the five projects, these accounts were included to preserve the option of future recovery for other projects. If the

Commission adopts this proposal, explain the process LG&E will use to determine that inventories and supplies related to a subsequent project should be included in the surcharge calculations.

6. Item 10(a) of the November 9, 1994 Order asked LG&E to explain how it will determine and use an O&M expense baseline in its surcharge calculations. LG&E responded that it did not propose to do so because it was not currently seeking recovery of these expenses. If LG&E is seeking authority for future recovery of O&M expenses, provide a complete explanation of the costs to be included and how items such as an O&M baseline will be determined.

7. LG&E has repeatedly stressed that it is not including inventories, supplies, and cash working capital in the determination of the environmental compliance rate base and is not currently seeking recovery of the O&M expenses. However, LG&E's proposed Environmental Cost Recovery Surcharge tariff states that the RB component of the Environmental Compliance Costs E(m) calculation will include inventories, supplies, and cash working capital and the OE component will include O&M expenses not included in base rates. Explain why the proposed tariff is inconsistent with LG&E's prior statements.

8. In response to Item 11 of the November 9, 1994 Order, LG&E stated that it was virtually impossible to calculate the total environmental compliance costs included in current rates. For purposes of this request, total environmental compliance costs included in current rates should be defined as those costs which qualify for recovery under KRS 278.183 and are already included in

existing rates. The request does not seek information on a project specific basis, but rather the total of all qualifying environmental compliance activities. Provide the originally requested information, including all supporting workpapers and assumptions.

9. Blake Exhibit 3, page 5 of 6, lists 10 O&M expense subaccounts to be included in LG&E's surcharge calculations.

a. When did LG&E begin using these subaccounts in its accounting system?

b. Provide the subaccount balances for the 12-month period ending October 31, 1994, or the most recent 12-month period available. The balances should reflect subaccount totals, rather than the amounts for specific projects.

10. In response to Item 13(b) of the November 9, 1994 Order, LG&E stated that permit fees paid to the Air Pollution Control District of Jefferson County ("APCDJC") prior to enactment of Title V of the Clean Air Act Amendments of 1990 totalled $15,475.

a. When did LG&E begin making permit fee payments to APCDJC?

b. Identify the account number(s) used by LG&E to record the permit fee payments.

c. Provide a schedule of permit fees paid to APCDJC in 1994 and the previous 10 calendar years.

11. The projects included in LG&E's compliance plan will result in the retirement or replacement of utility plant in service included in the test year used in LG&E's last general rate case.

Why has LG&E included no adjustment in its compliance rate base calculation to reflect the retirement or replacement of utility plant in service already included in existing rates? Does LG&E agree that such an adjustment is appropriate?

12. Considering the clarification requested in the information originally sought in Item 11 of the November 9, 1994 Order, provide the information originally requested in Item 17 of that Order.

13. In Items 20(a) through 20(c) of the November 9, 1994 Order, LG&E was asked to provide environmental compliance related capital investment and expense information included in the test year of its last general rate case. While LG&E responded that the information was not available, it provided the requested test year balances for certain utility plant, accumulated depreciation, depreciation expense, insurance, and taxes in response to Kentucky Industrial Utility Customer's ("KIUC") November 7, 1994 Data Request Item 10. The originally requested information should be provided for those cost elements which qualify for recovery under KRS 278.183 rather than for all environmental related costs. Balances should be LG&E total, not project specific.

14. In Item 21(e) of the November 9, 1994 Order, LG&E was requested to provide the monthly average revenue computation for March 1995 and to segregate total revenue into base revenues, fuel adjustment clause revenues, and demand side management revenues. The segregation of the total revenues was not provided. Provide the originally requested information.

15. LG&E's responses to KIUC's November 7, 1994 Data Request Items 1 through 5, appear to contradict LG&E's response to Item 9 (c) of the Commission's Order of November 9, 1994 which states that LG&E does not have any non-jurisdictional revenues and that revenues from off-system sales are included as jurisdictional revenues in LG&E's rate cases. Clarify whether LG&E intends to include off-system sales revenue in its revenue R(m) calculation for the purpose of deriving its surcharge factor.

16. LG&E's definition of revenue R(m) in its proposed surcharge tariff is comparable to that approved in Case No. 93-465[1] for Kentucky Utilities Company ("KU"). In practice, KU's revenue R(m) includes non-jurisdictional (off-system sales) revenue. In Case No. 94-032[2] the Commission directed Big Rivers Electric Corporation ("Big Rivers") to include revenue from non-member (off-system) sales in its calculation of revenue R(m). Is it LG&E's position that it should be treated differently than KU and Big Rivers?

17. The response to Item 56 of the November 9, 1994 Order indicates that preliminary air quality modeling shows that reductions in nitrogen oxides ("NO_x") at LG&E's plants will actually increase ozone formation.

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1 Case No. 93-465, The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products.

2 Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance With Environmental Requirements of the Clean Air Act.

a. Explain this conclusion.

b. When does the APCDJC plan to complete its most recent air quality modeling?

c. What portion of LG&E's NO_x compliance plan does LG&E plan to implement before receiving approval from the state?

18. In response to Item 50 of the November 9, 1994 Order, the cover letter from Sargent & Lundy dated July 19, 1994 indicates that LG&E is considering installing Overfire Air ("OFA") technology after low-NO_x burners are installed as part of its Reasonably Available Control Technology ("RACT") study.

a. What conclusions did the study reach regarding installation of OFA at a later time at Cane Rune Unit 6 and Mill Creek Units 1 and 2?

b. Does the recent court ruling[3] that, under Title IV, low-NO_x burner technology does not include OFA affect the desirability of delaying OFA at these units?

19. The capital investment costs for low-NO_x burners range from $53 per KW for Cane Run Unit 4 to $3.50 per KW for Mill Creek Unit 4. Explain this broad range of capital costs.

20. The Sargent & Lundy study of the Cane Run Unit 4 precipitator concluded that rebuilding the existing precipitator was preferable to replacing it. However, the response to Item 44 of the November 9, 1994 Order states that detailed design work indicated that re-use of the existing box was impractical.

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[3] Alabama Power Co. v. Environmental Protection Agency, No. 94-1170, ___F.3d___, 1994 WL 662739 (D.C. Cir. Nov. 29, 1994)

a. What problems led to this conclusion?

b. Would a rebuilt precipitator have been adequate if the precipitator were required to achieve a particulate removal rate of 0.10 instead of 0.03?

c. Did Sargent & Lundy state in writing that a new precipitator would be required? If yes, provide a copy of the statement.

21. Provide LG&E's best estimate of the annual SO_2 emission reductions to be achieved from the improvements to the Mill Creek scrubber.

22. The response to Item 32 of the November 9, 1994 Order at page 256 indicates that eliminating scrubber bypass will reduce annual SO_2 emissions by 18,000 tons per year. At a market value of $150 per ton over five years, the value of this reduction would be approximately $13.5 million.

a. Is it LG&E's position that this reduction does not overcome concerns about sharing a designated representative as stated in response to Item 29 of the November 9, 1994 Order?

b. Provide a list of all specific risks associated with sharing a designated representative.

c. Would not most of the risks associated with sharing a designated representative be assumed by the other utility because it would be required to certify the reductions to EPA?

d. Could LG&E withdraw from the sharing agreement at the close of Phase I or five years? If yes, would the limited period reduce the risk of sharing a designated representative?

e. Has LG&E conducted an economic analysis of a Phase I substitution plan? If yes, provide a copy of the analysis. If no, explain why no such analysis has been performed.

23. The response to Item 33(e) of the November 9, 1994 Order at page 17 indicates that the cost of eliminating scrubber bypass is $70.7 million plus an additional $1.3 million for demister wash and flue gas corrections. LG&E's application states that the current cost of the project is $7.3 million, but the response to Item 35 of the November 9, 1994 Order indicates that the budget for this project was revised from $4.8 million to $7.3 million.

a. Explain the differences between these estimates.

b. How much of the cost of eliminating scrubber bypass is included as part of the other Mill Creek scrubber project and how much is due to the need to reduce reactive particle formation? Explain how the cost allocation was performed.

c. Explain why LG&E revised the cost of the reactive particle project from $4.8 million to $7.3 million.

24. Since implementation of the reactive project, has the community of Valley Village registered additional complaints regarding acid deposition? If so, explain. In LG&E's opinion, have the improvements solved the problem?

25. Refer to the response to Item 33(e), page 10, of the November 9, 1994 Order. What is the purpose of recommendation number 5 to evaluate sorbent injection for Mill Creek? What is the status of this recommendation?

26. Provide a chronological list of all major studies related to controlling reactive particles including the names of the studies, dates, and author's names.

Done at Frankfort, Kentucky, this 8th day of December, 1994.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Don Mills

Executive Director